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VALUE FOR MONEY ASSESSMENT

**TORONTO 2015 PAN/PARAPAN
AMERICAN GAMES ATHLETES' VILLAGE**



November 9, 2012

Infrastructure Ontario
777 Bay Street
Toronto, Ontario
M5G 2C8

Attn: Mr. Martin Lavoie

**Re: Financial Close Stage Value for Money Assessment - 2015 Pan American Games
Athletes' Village**

Dear Mr. Lavoie:

PricewaterhouseCoopers LLP ("PwC") has prepared the Value for Money ("VFM") assessment for the 2015 Pan-American Games Athletes' Village ("PAAV", or "the Project") at the Financial Close stage, in accordance with our letter of engagement with Infrastructure Ontario ("IO") and IO's methodology *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*. This methodology is consistent with approaches used in other jurisdictions.

The VFM assessment is based on a comparison of the total project costs at the Financial Close Date for the Project under:

1. The traditional delivery approach, as reflected in the Public Sector Comparator ("PSC") model; and
2. The Alternative Finance and Procurement approach ("AFP"), incorporating the Successful Bidder's proposed costs.

The VFM assessment was calculated using the following information (collectively the "Information") within the VFM model:

- i. A Risk Matrix developed for IO by Altus Group and adapted by IO to reflect Project specific risks; and
- ii. Cost and other input assumptions extracted from the bid submitted by the Successful Bidder and other VFM model assumptions as provided by IO.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.



We have not audited or attempted to independently verify the reasonableness, accuracy or completeness of the Information.

The VFM has been calculated under two scenarios, as follows:

Scenario 1 – reflects the Preferred Bidder model in which the value of Stage 2 lands was recognized as a source of financing of project costs and treated as return on equity;

Scenario 2 – an alternative treatment which does not include the value of Stage 2 lands. This approach assumes that the value of lands is not reflected in the sources of project financing and the project costs are decreased by a corresponding amount.

Based on our understanding of IO's VFM methodology, we can confirm that, the Information has been appropriately used in the VFM model. Under Scenario 1, the VFM assessment demonstrates the AFP approach provides estimated cost savings of 14.0% in comparison to the traditional delivery approach and under Scenario 2, the AFP approach provides estimated cost savings of 13.4% in comparison to the traditional delivery approach.

Yours very truly

PwC LLP

Johanne Mullen
Principal



August 7th, 2012

Mr. Michael Inch
Vice President, Procurement
Infrastructure Ontario
777 Bay Street, 9th Floor
Toronto, Ontario M5G 2C8

Subject: Pan/Parapan American Games Athletes' Village Project ("PAAV") RFP No. OIPC-11-00-1024

Dear Mr. Inch,

P1-Consulting acted as the Fairness Monitor to review and monitor the communications, evaluations and decision-making processes that were associated with the procurement process for the Pan/Parapan American Games Athletes' Village Project ("PAAV") (the "Project") in terms of ensuring fairness, equity, objectivity, transparency and adequate documentation of the evaluation process.

For this project, Infrastructure Ontario and Waterfront Toronto are working with Toronto 2015 to develop the section of West Don Lands that will be home to the Athletes' Village.

The Village will be built based on Waterfront Toronto's vision for a green, modern and vibrant new community as outlined in the West Don Lands Precinct Plan.

The West Don Lands Athletes' Village project includes:

- Building a new residential neighbourhood, including affordable housing;
- Construction of roads and services, such as sewers;
- Design and construction of the Village, which will provide athletes with accommodations for the games period;
- Conversion of the Athletes' Village into a post-games legacy community;
- Ensuring that the Village is an environmentally sustainable community.

In our role as Fairness Monitor, P1 Consulting made certain that the following steps were taken to ensure a fair and open process:

- Compliance with the requisite procurement policies and procedures and the laws of tendering for the acquisition of services relating to public sector procurement;
- Adherence to confidentiality of bids, as applicable, and the evaluation process;

P1 Consulting Inc.

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Mr. Michael Inch
August 7th, 2012
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- Objectivity and diligence during the procurement process in order to ensure that it was conducted in an open and transparent manner;
- Proper definition and use of evaluation procedures and assessment tools in order to ensure that the process was unbiased;
- Compliance of project participants with strict requirements to avoid conflict of interest and to protect confidentiality during the procurement and evaluation processes;
- Security of information;
- Prevention of any conflict of interest amongst evaluators on the selection committee; and
- Oversight to provide a process where all Bidders were treated fairly.

P1 Consulting as Fairness Monitor actively participated in the following steps in the process to ensure that fairness was maintained throughout:

- Review of the Draft RFQ and RFP Documents;
- All Proponents Meeting
- Commercially Confidential Meetings with the pre-qualified Proponents;
- Site and facility visits by the Proponents;
- Review of the RFQ and RFP Addenda;
- Review of evaluation process and guideline documents;
- Proposal receipt, bid evaluation and selection of the Negotiation Proponents; and
- Oversight of the Negotiation Process.

The final step in the process overseen by P1 Consulting was for the Sponsors to select the Preferred Proponent. **Dundee Kilmer Developments** was selected as the Successful Proponent for RFP No. OIPC-11-00-I024, to design, build and finance the development of the section of the West Don Lands that will be home to the Toronto 2015 Pan/Parapan American Games Athletes' Village, in accordance with the RFP.

As the Fairness Monitor for Infrastructure Ontario's **Pan/Parapan American Games Athletes' Village Project** Request for Qualification and Proposal processes, we certify that, up to the point at which this Report was delivered, the principles of fairness, openness, consistency and transparency have, in our opinion, been maintained throughout procurement process. Furthermore, no issues emerged during the process, of which we were aware, that would impair the fairness of this initiative.

Yours truly,

Louise Panneton
Lead Fairness Monitor



Toronto 2015 Pan/Parapan American Games Athletes' Village Project

Artist's Rendering



The five members of the DundeeKilmer Integrated Design Team (IDT) have developed a compelling design vision for a sustainable and vibrant new community on the Toronto Waterfront. The IDT is led by the joint venture of architectsAlliance (aA) and Kuwabara Payne McKenna Blumberg Architects (KPMB), working in association with Daoust Lestage Architects, TEN Arquitectos and McClennan Jaunkalns Miller Architects.

Project Highlights

- Construction of roads and public spaces, including new municipal services, Front Street promenade, local streets, and the reconstruction of Eastern Avenue and Cherry Street;
- A new 82,000 square-foot YMCA recreational facility;
- George Brown College's first student residence;
- 787 units of market housing. Once converted for permanent occupancy following the Games, up to 100 units will be reserved for affordable ownership; and
- 253 units of affordable rental housing, representing 24 per cent of the total residential units being built in time for the Games.

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Summary

Over the last six years, the Province of Ontario has averaged \$10 billion in infrastructure investments per year. In June 2011, the Province launched its new long-term infrastructure plan – *Building Together*. The Province expects to continue significant investments in public infrastructure, and will begin by investing more than \$35 billion over the next three years.

Infrastructure Ontario plays a key role in procuring and delivering infrastructure projects, on behalf of the Province. When Infrastructure Ontario was created, its mandate included using an alternative financing and procurement (AFP) method to deliver large, complex infrastructure projects. In June 2011, the Province expanded Infrastructure Ontario's role to deliver projects of various sizes, including ones suitable for an AFP delivery model, as well as other delivery models.

The Athletes' Village project is being delivered under the Province's AFP model and is expected to create and support 5,200 jobs, including employment of approximately 700 workers on the construction site.

Toronto's winning bid for the 2015 Pan/Parapan American Games greatly accelerated plans for this development in the West Don Lands. Based on Waterfront Toronto's award-winning Precinct Plan, the new waterfront community will combine design excellence with environmental sustainability in a neighbourhood created for families of all sizes and at all income levels.

The project will accelerate the revitalization of a portion of the West Don Lands and once complete, the new mixed-use development is expected to be a leading edge model of social, economic and environmental sustainability for the City of Toronto.

The new buildings will target Leadership in Energy and Environmental Design (LEED®) Gold certification. LEED® buildings focus on healthy indoor environments, reduced greenhouse gas emissions and efficient use of energy, water and other resources.

The purpose of this report is to provide a summary of the project scope, the procurement process and the project agreement, as well as to demonstrate how value for money was achieved by delivering the Toronto 2015 Pan/Parapan American Games Athletes' Village through the AFP process.

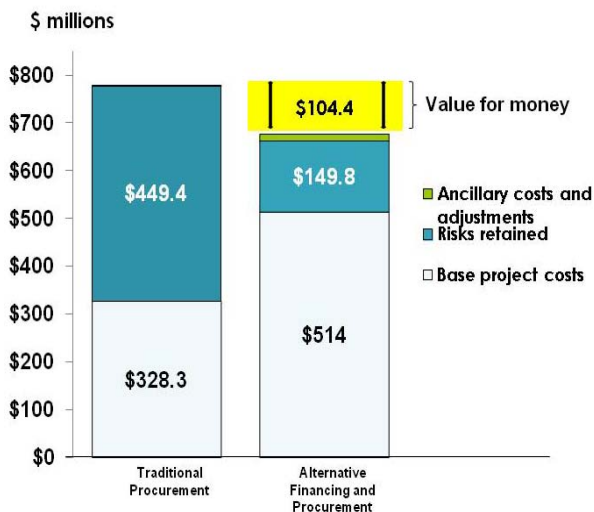
The value for money analysis refers to the process of developing and comparing the total project costs under two different delivery models, which are expressed in dollar values measured at the same point in time.

Value for money is determined by directly comparing the cost estimates for the following two delivery models:

| Model #1 Traditional project delivery (Public sector comparator) | Model #2 Alternative financing and procurement |
|--|--|
| Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes. | Total project costs incurred by the public sector to deliver the same infrastructure project with identical specifications using the AFP approach. |

The cost difference between model #1 and model #2 is the estimated value for money for this project.

The value for money assessment of the Athletes' Village project indicates estimated cost savings of 13.4 per cent or \$104.4 million, by using the AFP approach in comparison to traditional delivery.



PricewaterhouseCoopers completed the value for money assessment of the Athletes' Village project. Their assessment demonstrates projected cost savings of 13.4 per cent by delivering the project using the AFP model, versus what it would have cost to deliver the project using a traditional delivery model.

P1 Consulting acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the Athletes' Village project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. P1 Consulting certified that these principles were maintained throughout the procurement process (please see letter on page 4).

Infrastructure Ontario will work with the Pan/Parapan American Games Secretariat and TO2015 to develop the Athletes' Village, ensuring it is completed in time for the 2015 Games.

Project description

Background

Ontario's public infrastructure projects are guided by the five principles set out in the provincial government's *Building a Better Tomorrow Framework*:

1. public interest is paramount;
2. value for money must be demonstrable;
3. appropriate public control and ownership must be preserved;
4. accountability must be maintained; and
5. all processes must be fair, transparent and efficient.

Project Scope

The Athletes' Village project will advance implementation of Waterfront Toronto's award-winning precinct plan for the West Don Lands area and when complete in 2015, the new neighbourhood will provide a home away from home for up to 10,000 Pan and Parapan athletes, coaches and team officials during the 2015 Pan/Parapan American Games.

The project will deliver design excellence and sustainability, with all new buildings designed to achieve LEED® Gold.

In time for the Pan/Parapan American Games, Dundee Kilmer Developments has committed to complete:

- The next phase of West Don Lands infrastructure, including roads, public spaces, new municipal services, Front Street promenade, local streets, and the reconstruction of Eastern Avenue and Cherry Street, which will include a new streetcar route;
- A new 82,000 square-foot YMCA recreational facility, which will function as a training facility during the Games, and will then serve the West Don Lands and surrounding communities following the Games;
- George Brown College's first ever student residence, which will be used during the Games to support athletes and officials, and will subsequently provide housing for 500 students;
- 787 units of market housing, which will be used temporarily for Games accommodation, then converted for permanent occupancy following the Games. Once converted, up to 100 units representing five per cent of the total residential units will be reserved for affordable ownership;
- 253 units of affordable rental housing, representing 24 per cent of the total residential units being built in time for the Games, which will be used temporarily for Games accommodation, then converted for permanent occupancy following the Games;
- Additional accommodations and facilities required for use during the Games, including offices, administrative and ancillary facilities; and,
- Site preparation work necessary to support temporary Games facilities.

The project is generating economic stimulus by creating and supporting 5,200 jobs, including employment for approximately 700 workers on the construction site.

Competitive selection process timeline

Dundee Kilmer Developments has entered into a project agreement to design, build and finance the Athletes' Village project. The procurement stages for the project were as follows:

October 26, 2010

Request for Qualifications

In October 2010, Infrastructure Ontario issued a request for qualifications (RFQ) for the project. Three teams were shortlisted:

- Dundee Kilmer Developments Limited
- Legacy Village Partners
- Village Infrastructure Partners

January 28, 2011

Request for Proposals

A request for proposals (RFP) was issued to the shortlisted proponents, setting out the bid process and proposed project agreements to deliver the project.

Proposal submission

The RFP period closed on June 24, 2011. Three bids were received by Infrastructure Ontario. The bids were evaluated using the criteria set out in the RFP.

September 2, 2011

First ranked proponent notification and execution of an Early Works Agreement

Dundee Kilmer Developments was selected as the first ranked proponent based on predetermined criteria, including construction schedule, technical requirements, price, operational and management plans and financial backing in accordance with the evaluation criteria set out in the RFP.

At this time, EllisDon Ledcor PAAV Inc. began work on the site under an early works agreement.

The consortium includes:

Dundee Realty Corporation – Equity Investor, Developer

Kilmer Van Nostrand Co. Limited – Equity Investor, Developer

EllisDon Corporation – Design Builder, Constructor

Ledcor Design Build (Ontario) Inc. – Design Builder, Constructor

architectsAlliance – Joint Venture Architect

Kuwabara Payne McKenna Blumberg – Joint Venture Architect

TEN Arquitectos – Design

Daoust Lestage Inc. – Urban Design Architect

MacLennan Jaunkalns Miller Architects – Design

Goodmans LLP – Legal Advisor

Brookfield Financial Corp. – Financial Advisor

December 14, 2011

Commercial and Financial close

A project agreement was executed by Infrastructure Ontario, on behalf of the Ontario government, and Dundee Kilmer Developments.

January 2012 – Early 2015

Construction Phase

During the construction period, the builder's construction costs will be funded by its lenders in monthly instalments based on the construction program set out by EllisDon Ledcor PAAV Inc.

Construction will be carried out in accordance with the project agreement. The project will be overseen by a joint building committee made up of representatives from Infrastructure Ontario and Waterfront Toronto.

Completion and payment

Dundee Kilmer Developments will receive an interim payment from the province and will receive the remainder at substantial completion of the project.

Project agreement

Legal and commercial structure

The Province entered into a project agreement with Dundee Kilmer Developments L.P., comprising approximately 41 months of site work and construction followed by approximately 7 months for the conversion of the Athletes' Village to its post-Games state. Under the terms of the project agreement, Dundee Kilmer Developments will:

- design and build the facilities required for the Games, including athlete housing, administration and office facilities. The facilities will initially be completed to a standard required for use during the Games. Post Games, Dundee Kilmer will convert the facilities to their end use;
- finance the construction and capital costs of the new development over the term of the project;
- obtain a third-party independent certification that the facilities are built to the requirements of the Province;
- provide facility maintenance services for 7 months before and during the Games period; and
- ensure that, at the end of the contract term, the buildings meets the conditions specified in the project agreement.

Dundee Kilmer Developments will receive a payment from the Province at interim completion and a final payment at substantial completion of the project which is expected in early 2015.

Post Games period use, Dundee Kilmer will be responsible for converting its facilities to their final use, including converting the market condominiums to their third party sale state. Dundee Kilmer is responsible for selling the market condominiums and has assumed the risks associated with market absorption.

Design, build and completion risk

All infrastructure projects have risks. Some project risks are retained in varying magnitude by the public sector. Examples of risks retained by the public sector under either the AFP or traditional model include changes in law, public sector initiated scope change, and force majeure (shared risk).

Under the AFP model, some key risks that would have been retained by the public sector are contractually transferred to Dundee Kilmer Developments. On a traditional project, these risks and resource availabilities can lead to cost overruns and delays. Examples of risks transferred to the private sector under the AFP project agreement include:

Design and build phase price certainty

Dundee Kilmer Developments will finance, design and build the Pan/Parapan American Games Athletes' Village and post-Games legacy community. Dundee Kilmer will receive a payment from the Province at interim completion and substantial completion of the project, which is expected in early 2015.

Dundee Kilmer's payments may only be adjusted in very specific circumstances, agreed to in advance and in accordance with the detailed variation procedures set out in the project agreement.

Scheduling, project completion and delays

Dundee Kilmer has agreed to achieve readiness for the Games by having all permanent facilities in a state of Games readiness, as required in the project output specifications, in early 2015.

The project schedule can only be modified in very limited circumstances, in accordance with the project agreement, Dundee Kilmer's final payment will not commence until it has completed the new community and it has been certified as substantially complete by an independent consultant.

Costs associated with delays that are the responsibility of the contractor must be paid by Dundee Kilmer.

Site conditions and contamination

Generally, Dundee Kilmer Developments accepted the site and the site conditions as at financial close. Furthermore, Dundee Kilmer Developments is responsible for any contamination at the site that was disclosed in or could have been reasonably anticipated from the environmental report or any of the geotechnical reports, or that is caused by Dundee Kilmer Developments or any of its parties. Dundee Kilmer's liability, however, for contaminants migrating to the site is capped at \$5 million.

Development approvals

Dundee Kilmer Developments is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals.

Construction financing

Dundee Kilmer Developments is required to finance the construction of the project until the Athletes' Village is substantially complete. Dundee Kilmer Developments will be responsible for all increased financing costs should there be any delay in them reaching substantial completion. This shifts significant financial risk to Dundee Kilmer Developments in the case of late delivery.

Commissioning and facility readiness

Dundee Kilmer Developments must achieve a prescribed level of commissioning of the Athletes' Village at substantial completion and must co-ordinate the commissioning activity within the agreed-upon construction schedule. This ensures TO2015 will receive functional building facilities in time for the Games.

Activity protocols

Dundee Kilmer Developments and Infrastructure Ontario have established a schedule for project submittals taking into account the time for review needed by Infrastructure Ontario's compliance architect.

This protocol mitigates Dundee Kilmer Developments alleging delay as a result of an inability to receive responses in a timely manner in the course of the work.

Change order protocol

In addition to the variation procedure set out in the project documents, Infrastructure Ontario's protocols set out the principles for any changes to the project work/scope during the construction period, including:

- requiring approval and processing of change orders from Infrastructure Ontario;
- specifying the limited criteria under which change orders will be processed and applied;
- timely notification of change orders to Infrastructure Ontario;
- approval by Infrastructure Ontario for owner-initiated scope changes; and
- approval by Infrastructure Ontario for any change order.

Maintenance risk

As part of the project agreement, risks associated with facilities management during the Games period have been transferred to Dundee Kilmer Developments. Dundee Kilmer's management, maintenance and services must meet the performance requirements set out in the project agreement.

Achieving value for money

For the Athletes' Village project, PricewaterhouseCooper's value for money assessment demonstrates a projected cost savings of 13.4 per cent, or \$104.4 million, by using the alternative financing and procurement (AFP) approach, as compared to the traditional procurement approach.

PricewaterhouseCoopers was engaged by Infrastructure Ontario to independently assess whether – and, if so, the extent to which – value for money will be achieved by delivering this project using the AFP method. Their assessment was based on the value for money assessment methodology outlined in *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which can be found at www.infrastructureontario.ca. The approach was developed in accordance with best practices used internationally and in other Canadian provinces, and was designed to ensure a conservative, accurate and transparent assessment. Please refer to the letter from PWC on page 2.

Value for money concept

The goal of the AFP approach is to deliver a project on time and on budget and to provide real cost savings for the public sector.

The value for money analysis compares the total estimated costs, expressed in today's dollars and measured at the same point in time, of delivering the same infrastructure project under two delivery models - the traditional delivery model (public sector comparator or "PSC") and the AFP model.

| Model #1 Traditional project delivery (Public sector comparator) | Model #2 Alternative financing and procurement |
|--|--|
| Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes. | Total project costs incurred by the public sector to deliver the same infrastructure project with identical specifications using the AFP approach. |

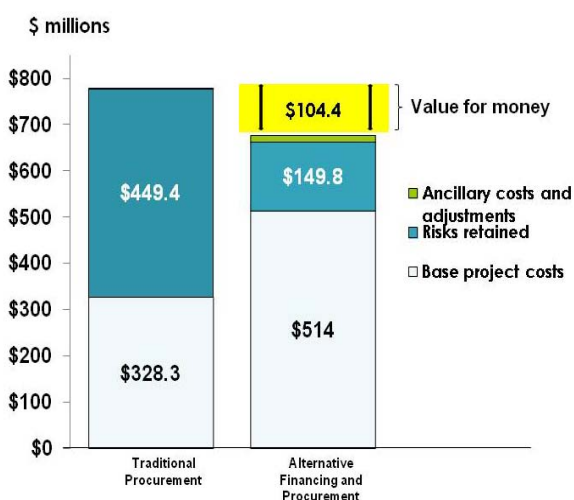
The cost difference between model #1 and model #2 is referred to as the value for money. If the total cost to deliver a project under the AFP approach (model #2) is less than the total cost to deliver a project under the traditional delivery approach (model #1), there is said to be positive value for money. The value for money assessment is completed to determine which project delivery method provides the greatest level of cost savings to the public sector.

The cost components in the VFM analysis include only the portions of the project costs that are being delivered using AFP.

The value for money assessment is developed by obtaining detailed project information and input from multiple stakeholders, including internal and external experts in project management.

Components of the total project costs under each delivery model are illustrated below:

The value for money assessment of the Athletes' Village project indicates estimated cost savings of 13.4 per cent or \$104.4 million, by using the AFP approach in comparison to traditional delivery.



It is important to keep in mind that Infrastructure Ontario's value for money calculation methodology does not attempt to quantify a broad range of qualitative benefits that may result from using the AFP delivery approach. For example, the use of the AFP approach will more likely result in a project being delivered on time and on budget. The benefits of having a project delivered on time cannot always be accurately quantified.

These qualitative benefits, while not expressly quantified in this value for money analysis, are additional benefits of the AFP approach that should be acknowledged.

Value for money analysis

The value for money analysis refers to the process of developing and comparing the total project costs under two different delivery models, which are expressed in dollar values measured at the same point in time. It is Infrastructure Ontario's policy to use the current public sector rate of borrowing for this purpose to ensure a conservative and transparent analysis. For more information on how project costs are time-valued and the value for money methodology, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at www.infrastructureontario.ca.

Base costs

Base project costs are taken from the price of the contract signed with Dundee Kilmer Developments, and include all design, development, and financing costs. The base costs between AFP and the traditional delivery model mainly differ as follows:

Under the AFP model, the private party charges an additional premium as compensation for the risks that the public sector transfers to them under the AFP project documents and as compensation for the cost of financing the project using its own capital. In the case of traditional delivery, the private party risk premium is not included in the base costs as the public sector retains these risks and does not require private sector financing.

In the case of the AFP model, the net base costs are extracted from the price agreed among the parties under the project agreement. For the Athletes' Village project, these were \$514 million.

If the traditional model had been used for the Athletes' Village project, net base costs are estimated to be \$328.3 million.

Risks retained

Historically, on traditional projects, the public sector had to bear costs that go beyond a project's base costs because of the contingencies necessary to respond to the project risks.

Project risks are defined as potential adverse events that may have a direct impact on project costs. To the extent that the public sector retains these risks, they are included in the estimated project cost. The concept of risk transfer and mitigation is key to understanding the overall value for money assessment. To estimate and compare the total cost of delivering a project under the traditional delivery versus the AFP method, the risks borne by the public sector (which are called "retained risks") should be identified and accurately quantified.

Comprehensive risk assessment not only allows for a fulsome value for money analysis, but also helps Infrastructure Ontario and the public sector sponsors to determine the party best able to manage, mitigate and/or eliminate the project risks and to appropriately allocate those risks under the project documents.

Under the traditional delivery method, the risks retained by the public sector are significant. As discussed on pages 12-13, the following are examples of risks retained by the public sector under the traditional delivery method that have been transferred under the project agreement to Dundee Kilmer Developments:

- design compliance with the output specifications;
- design and build price certainty;
- scheduling, project completion and potential delays;
- design and build co-ordination;
- infrastructure responsibility;
- build and operations period financing;
- schedule contingency;
- deployment of solution.

Examples of these risks include:

- *Design and build coordination/completion:* Under the AFP approach the vendor is responsible for design and build activities to ensure that the solution is built in full accordance with the output-based specifications in the project agreement. The vendor is responsible for inconsistencies, conflicts, interferences or gaps in the design and build submittals.
- *Scheduling, project completion and delays:* Under the AFP approach, the vendor has agreed that it will provide the Athletes' Village for use by TO2015 by a fixed date and at a pre-determined price. Therefore, any extra cost (financing or otherwise) incurred as a result of a schedule overrun caused by the vendor will not

be paid by the Province, thus providing the vendor a clear motivation to maintain the project's schedule. Further oversight includes increased upfront due diligence and project management controls imposed by the vendor.

Infrastructure Ontario retained an experienced, third-party construction consulting firm, Altus Group, to develop a template for assessing the project risks that the public sector relinquishes under AFP compared to the traditional approach. Using data from actual projects as well as its own knowledge base, the firm established a risk profile under both approaches for infrastructure facilities.

It is this risk matrix that has been used for validating the risk allocation for the specific conditions of the Athletes' Village project.

Using the AFP model reduces these results to the public sector. For example, had this project been delivered using the traditional approach, design risks that arise would be carried out through a series of change orders issued during the build of the system. Using the AFP approach, such change orders would be minimal and result in cost avoidance to the public sector.

The risk transfer provisions in the project documents result in overall cost savings as these transferred risks will either be better managed or completely mitigated by Dundee Kilmer Developments.

A detailed risk analysis of the Athletes' Village project concluded that the average value of project risks retained by the public sector under traditional delivery is \$449.4 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$149.8 million.

Ancillary costs and adjustments

There are significant ancillary costs associated with the planning and delivery of a large complex project that vary depending on the project delivery method.

For example, there are costs related to each of the following:

- *Project management:* These are essentially fees to manage the entire project. Under the AFP approach, these fees will also include Infrastructure Ontario costs.
- *Transaction costs:* These are costs associated with delivering a project and consist of legal, fairness and transaction advisory fees. Technical advisory and cost consultant fees are also incurred to ensure the solution is being designed and built according to the output specifications.

The ancillary costs are quantified and added to both models for the value for money comparison assessment. Both project management and transaction costs are likely to be higher under AFP given the greater degree of up-front due diligence. The ancillary costs for the Athletes' Village project under the traditional delivery method are estimated to be \$2.06 million as compared to \$13.0 million under the AFP approach.

An adjustment is made when estimating costs under traditional delivery. This adjustment is referred to as competitive neutrality and accounts for items such as taxes paid under AFP that flow back to the public sector and are not taken into account under the traditional model. In the case of the Athletes' Village project, this adjustment is made by adding \$1.18 million to the traditional delivery costs (i.e. on the PSC side).

For a detailed explanation of ancillary costs, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at www.infrastructureontario.ca

Calculating value for money

The analysis completed by Price Waterhouse Coopers concludes that the additional costs associated with the AFP model are more than offset by the benefits which include: a much more rigorous upfront due diligence process, reduced risk to the public sector, controls imposed by the

private sector to mitigate the risk that has been transferred to them, and Infrastructure Ontario's standardized AFP procurement process.

Once all the cost components and adjustments are determined, the aggregate costs associated with each delivery model (i.e., traditional delivery and AFP) are calculated, and expressed in Canadian dollars at the same point in time. In the case of the Athletes' Village project, the estimated traditional delivery cost (i.e. PSC) is \$781.0 million as compared to \$676.6 million under the AFP delivery approach.

The positive difference of \$104.4 million or 13.4 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.